

AR21

SE
SIMCOE
ERIE
GROUP

[Handwritten signature]

y simco

HEAD OFFICE 505 York Blvd., Hamilton, Ontario

REGISTRAR AND TRANSFER AGENT Equitrust
Hamilton, Ontario

AUDITORS Coopers & Lybrand

BANKERS The Toronto-Dominion Bank
Fulton National Bank, Atlanta, Georgia
Citibank, N.A., New York
Bank of Bermuda
Chemical Bank, N.Y., New York
Cornhill Branch, London England

SHARES LISTED Toronto Stock Exchange

John Conway Stradwick Jr.	President	
Anthony Thomas Chmiel	Executive Vice-President	
Ernest Dodd	Vice-President and Secretary	
Ernest Harry Swindall	Treasurer	
William Melville Fullerton	Assistant Secretary-Treasurer	OFFICERS

Anthony Thomas Chmiel, Eric L. Clark, John Thomas Hamilton,
Kenneth Edward Jones, Henry Vernon Kneale, John Conway Stradwick, Jr.,
John Charles Stradwick, Sr., William Lloyd Stradwick,
Ernest Harry Swindall, John Warren Nevil Thomas,
Arnold Joseph Van Heukelom, Malcolm McNeil Webb.

DIRECTORS

J.C. Stradwick	President and Chief Executive Officer	
E. H. Swindall	Senior Vice President	
J.T. Atto	Vice President Underwriting	
W.T. Bircham	Vice President U.S. Operations	
M. Charter	Vice President Western Canada Operations	
E. Dodd	Vice President and Secretary	
W.M. Fullerton	Vice President Corporate Accounting	
G.W. Laycock	Vice President Surety	
E. A. McMurray	Vice President Claims	
D.K. Tester	Vice President Corporate Properties	OPERATIONS OFFICERS



PRESIDENT'S REPORT

TO THE SHAREHOLDERS

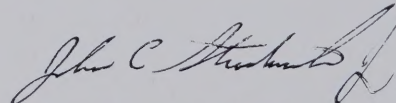
As evidenced by the accompanying statements our earnings declined approximately 10% during the year ended December 31, 1979. On a pre-tax basis, however, the decrease was more in the order of 5%, a quite satisfactory result in view of present market conditions. After a brief pause in 1978 gross premium income grew to a new high of \$78 million and we expect this upward trend to continue in 1980 even though we do not feel the insurance industry will react to existing uneconomic premium rate levels before next year. High interest rates have been a factor in creating this situation and we see little hope that they will drop substantially in the near future. Obviously while our Company benefits from the resultant increase in investment income it will continue to be our policy to underwrite conservatively, appreciating that we must live with our business once conditions return to normal.

We are pleased to report that during 1979 our U.S. Branch commenced operations in New York City and was well received by the American market. During its first year it wrote premiums totalling almost \$5 million and it is expected to become an even larger factor in our progress during 1980.

As Managers we also launched the New Rotterdam Insurance Company in Canada initiating our underwriting for them in March 1979. Our activities on their behalf grew gradually during the year and their acceptance by our agency force makes it clear that they will play a major part in our future.

Thus we move into 1980 confident that the new decade offers us as much opportunity as the last. We are operating from a sound financial base and from well established offices located at key points in North America. We consider our new head office in Hamilton to be functionally superior to any in our industry as well as one of our best investments. Added to these physical assets we have a mature and dedicated staff who are primarily responsible for our favourable results. This, notwithstanding the damaging effects of two major windstorms in Canada and two hurricanes in the United States during 1979.

To de-emphasize the problems that exist today would be foolhardy but for the foregoing reasons we continue to anticipate sound growth for our Company.



John C. Stradwick, Jr.
President

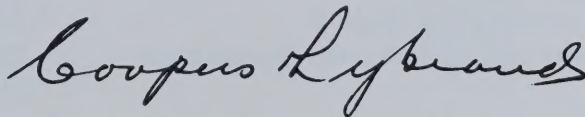
April 10, 1980

AUDITOR'S REPORT

TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Simcoe Erie Investors Limited as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants



DATED AT HAMILTON, ONTARIO, APRIL 10, 1980

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1979

ASSETS	1979	1978
	\$	\$
Cash	<u>2,461,515</u>	<u>3,350,097</u>
Accounts receivable		
Agents	8,329,783	5,296,155
Reinsurers	2,857,793	1,412,151
Other	<u>65,264</u>	<u>49,840</u>
	11,252,840	6,758,146
Accrued interest	<u>831,726</u>	<u>770,102</u>
Investments		
Short-term deposits	1,938,164	1,118,600
Bonds — at amortized cost (quoted market value 1979 - \$28,495,384; 1978 - \$29,417,045)	32,489,965	30,716,298
Stocks — at cost (quoted market value 1979 - \$5,813,312; 1978 - \$6,926,771)	<u>5,920,875</u>	<u>6,481,728</u>
	40,349,004	38,316,626
Investment in inactive subsidiary - at cost	—	500
Investment in corporate joint venture - at equity value	162,111	167,867
Head office under construction (Note 6)	1,708,534	22,931
Fixed assets - at cost less accumulated depreciation	195,997	146,207
Other assets	312,743	326,022
Excess of cost of investment in shares of subsidiaries over net book value of assets acquired - less amortization	146,340	156,772
Deferred premium acquisition costs	1,684,754	1,418,591
Deferred debenture costs - at cost less amortization	<u>184,500</u>	<u>—</u>
	4,394,979	2,238,890
	<u>59,290,064</u>	<u>51,433,861</u>

LIABILITIES

	\$ 1979	\$ 1978
Unpaid claims and provision for adjustment expenses	22,638,580	20,480,559
Accounts payable		
Reinsurers	5,540,287	2,672,948
Agents	546,037	462,609
Other	1,675,451	1,256,938
Income and other taxes payable	260,993	888,356
Reinsurers deposits	<u>2,106,515</u>	<u>2,621,643</u>
	<u>32,767,863</u>	<u>28,383,053</u>
Unearned premiums	8,107,010	6,752,036
Unearned commissions	875,000	875,000
Bank loan	—	3,735,934
Note payable	73,450	74,576
6% Convertible debentures (Note 2)	75,600	161,100
10 1/2% Convertible debentures (Note 2)	3,500,000	—
Deferred income taxes	<u>985,320</u>	<u>662,600</u>
	<u>13,616,380</u>	<u>12,261,246</u>
Minority interest	<u>16,376</u>	<u>16,187</u>

SHAREHOLDERS' EQUITY**CAPITAL STOCK (Notes 2 and 3)**

Authorized

6,000,000 Common shares without par value

Issued

3,608,118 Shares

RETAINED EARNINGS

3,583,543	3,493,043
<u>9,305,902</u>	<u>7,280,332</u>
<u>12,889,445</u>	<u>10,773,375</u>
<u>59,290,064</u>	<u>51,433,861</u>

**SIGNED ON BEHALF OF THE BOARD**

William L. Strickland Director

Anthony T. Chavis Director

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1979

	\$ 1979	\$ 1978
BALANCE — BEGINNING OF YEAR	7,280,332	4,831,964
Net earnings for the year	<u>2,381,399</u>	<u>2,676,633</u>
	9,661,731	7,508,597
Dividends	<u>355,829</u>	<u>228,265</u>
BALANCE — END OF YEAR	<u>9,305,902</u>	<u>7,280,332</u>

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1979

	1979	1978
	\$	\$
GROSS PREMIUMS WRITTEN	<u>77,890,121</u>	<u>68,366,631</u>
REVENUE		
Premiums earned	27,088,376	23,135,432
Management fees	138,286	36,455
Investment income	<u>4,278,945</u>	<u>3,793,315</u>
	<u>31,505,607</u>	<u>26,965,202</u>
EXPENSES		
Claims incurred	20,525,650	16,697,498
Commissions	3,165,290	2,624,599
Premium taxes	281,439	429,265
Other underwriting	2,454,505	2,343,406
Administration and investment	1,001,904	584,558
Debenture interest	<u>7,403</u>	<u>16,722</u>
	<u>27,436,191</u>	<u>22,696,048</u>
	<u>4,069,416</u>	<u>4,269,154</u>
PROVISION FOR INCOME TAXES		
Current	1,357,352	1,658,564
Deferred	<u>322,720</u>	<u>(64,700)</u>
	<u>1,680,072</u>	<u>1,593,864</u>
EARNINGS BEFORE EQUITY IN NET EARNINGS OF CORPORATE JOINT VENTURE AND MINORITY INTEREST	2,389,344	2,675,290
EQUITY IN EARNINGS (LOSS) OF CORPORATE JOINT VENTURE	(5,756)	7,365
MINORITY INTEREST	<u>2,189</u>	<u>6,022</u>
NET EARNINGS FOR THE YEAR (Notes 4 and 5)	<u>2,381,399</u>	<u>2,676,633</u>



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1979

RESOURCES PROVIDED	1979	1978
OPERATIONS	\$	\$
Net earnings for the year	2,381,399	2,676,633
Deferred income taxes	322,720	(64,700)
Depreciation and amortization	72,906	63,145
Amortization of the excess of cost of investment in shares of subsidiaries over net book value of assets acquired	10,432	10,432
Share of (earnings) loss of corporate joint venture	5,756	(7,365)
Unrealized exchange (gain) loss	(1,126)	5,722
Minority interest share in earnings	2,189	6,022
Increase (decrease) in unearned premiums	1,354,973	(363,161)
Increase in unearned commissions	—	150,000
Gain on sale of fixed assets	(1,360)	—
Write-off of investment in inactive subsidiary	500	—
	<u>4,148,389</u>	<u>2,476,728</u>
Increase (decrease) in accounts payable over accounts receivable	(171,507)	1,100,731
Proceeds of bank loans	—	2,275,934
Proceeds of debenture issue	3,500,000	—
Realization of deferred premium acquisition costs	—	217,904
Realization of other assets	13,279	168,193
Proceeds on exercise of share purchase warrants	5,000	1,905
Proceeds on sale of fixed assets	4,348	—
	<u>7,499,509</u>	<u>6,241,395</u>
RESOURCES APPLIED		
Purchase of minority interest's shares	2,000	—
Increase in deferred premium acquisition costs	266,163	—
Dividends	355,829	228,265
Repayment of bank loans	3,735,934	420,000
Purchase of fixed assets	125,184	31,316
Deferred debenture costs	185,000	—
Head office under construction	1,685,603	22,931
	<u>6,355,713</u>	<u>702,512</u>
INCREASE IN RESOURCES	1,143,796	5,538,883
RESOURCES — BEGINNING OF YEAR	<u>41,666,723</u>	<u>36,127,840</u>
RESOURCES — END OF YEAR	<u>42,810,519</u>	<u>41,666,723</u>
REPRESENTED BY:		
Cash	2,461,515	3,350,097
Investments	<u>40,349,004</u>	<u>38,316,626</u>
	<u>42,810,519</u>	<u>41,666,723</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1979

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of the company and its three subsidiary companies, Simcoe & Erie General Insurance Company, The Bay City General Insurance Company and Simcoe Bay Reinsurance Company Limited. The investment in Robt. Bradford of Canada Limited, a corporate joint venture, is accounted for on an equity basis.

(i) The excess of cost of investment in shares of subsidiaries over net book value of assets acquired is being amortized on a straight line basis over twenty years. The amount charged to earnings during the year was \$10,432. (1978 — \$10,432).

(ii) Deferred debenture costs are being amortized on a straight line basis over the fifteen year life of the 10 1/2% debentures.

All assets, liabilities, revenues and expenses in foreign currencies have been translated at the rates prevailing at December 31, 1979.

(A) PRINCIPLES OF CONSOLIDATION

(B) AMORTIZATION

(C) FOREIGN EXCHANGE

2. CONVERTIBLE DEBENTURES

The 6% debentures are secured by a first floating charge on the assets and undertaking of the company and are convertible into common shares at \$1.66 2/3 per share on or before December 31, 1981; 45,360 shares have been set aside to satisfy the remaining conversion privileges. During the year 51,300 shares were issued at \$1.66 2/3 per share on conversion of \$85,500 of debentures.

(A) 6% CONVERTIBLE DEBENTURES



On December 17, 1979 the Company issued \$3,500,000 of 10 1/2% convertible debentures secured by a floating charge on all the Company's undertaking, property and assets subject to a prior floating charge securing the 6% convertible debenture as outlined in Note 2(A).

The convertible debentures may not be redeemed prior to December 15, 1982 and thereafter and until December 1984 will be redeemable only if the weighted average price at which the common shares of the Company were traded on the Toronto Stock Exchange in a specified period prior to the giving of notice of redemption was not less than 125% of the purchase price. After December 15, 1984 the 10 1/2% convertible debentures will be redeemable at the option of the Company. 875,000 shares have been set aside to satisfy these conversion privileges.

**(B) 10 1/2% CONVERTIBLE
DEBENTURES**

There are share warrants for the purchase of 24,867 shares outstanding as at December 31, 1979 which may be exchanged for common shares on the same basis as the convertible debentures described in Note 2(A).

During the year 3,000 shares were issued at \$1.66 2/3 per share in exchange for \$5,000 cash and surrender of warrants of 3,000 shares.

3. SHARE WARRANTS

	1979 \$	1978 \$
Basic	.67	.78
Adjusted basic	.66	.75
Fully diluted	.64	.73

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the respective years.

Adjusted basic earnings per share are calculated assuming that the 51,300 shares issued during the year on conversion of \$85,500 in debentures occurred January 1, 1979. Earnings applicable to common shares were adjusted by the interest after income tax (\$1,434) on those debentures converted.

4. EARNINGS PER SHARE

The calculation of fully diluted earnings per share assumes that all of the outstanding 6% debentures and share warrants were converted into common shares as of January 1, 1979 and that all of the outstanding 10 1/2% debentures were converted into common shares as of December 17, 1979, their issue date. Earnings applicable to common shares were adjusted by the interest, after income tax, on the debentures (\$3,702) and imputed interest on the share warrants (\$3,484). The number of common shares outstanding was adjusted to reflect the additional shares that would have resulted on conversion (103,789).

Expenses for the year include depreciation and amortization in the amount of \$72,906 (1978 — \$63,145).

The remuneration of directors and senior officers of the company and its subsidiaries, as defined by the Business Corporations Act (Ontario) amounted to \$568,963 (1978 — \$499,903).

On March 27, 1980 Simcoe & Erie General Insurance Company held the official opening ceremony for its new head office building. The building was completed at a total cost of slightly less than \$2,000,000.

The minimum annual rental cost for lease of office space, under long-term leases expiring in 1980 and 1987 is:

	\$
1980	75,900
1981-84	72,600
1985	39,200
1986-87	28,000

4. EARNINGS PER SHARE

5. STATUTORY INFORMATION

6. HEAD OFFICE UNDER CONSTRUCTION

7. LEASE COMMITMENTS



FIVE YEAR REVIEW

	1975	1976	1977	1978	1979
Gross Revenue	34,275,929	47,341,111	67,581,351	68,366,631	77,890,121
Net Earnings	601,454	1,457,786	1,830,535	2,676,633	2,381,399
Assets	27,828,874	34,659,079	45,781,228	51,433,861	59,290,064
Earnings per Share	0.167	0.407	0.503	0.73	0.64





**SIMCOE ERIE INVESTORS LIMITED
AND ITS SUBSIDIARIES**

505 YORK BLVD.
HAMILTON, ONTARIO L8N 3S3